

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ARA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 AGR-05 DOTE-00 CG-00 FMC-01 DHA-02

ORM-01 IO-10 SAM-01 FTC-01 L-03 H-02 /118 W

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R 111350Z AUG 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 3730

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMCONSUL LUANDA

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

AMEMBASSY VIENNA

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TAGS: ECON, EINV, PO

SUBJ: FURTHER NATIONALIZATIONS AMONG NEW ECONOMIC MEASURES

SUMMARY: COUNCIL OF MINISTERS ANNOUNCED NATIONALIZATION OF BREWERY SECTOR AND OF THREE COMPANIES IN GIANT COMPANHIA UNIAO FABRIL (CUF) GROUP. INTERNAL \$200 MILLION BOND ISSUES, ASSISTANCE TO ANGOLAN REFUGEES, AND STATUTES FOR AIRLINE TAP ALSO APPROVED. GOP HAS EVIDENTLY DECIDED TO AVOID FRONTAL ATTACK ON CUF GROUP, AND ESPECIALLY ON FOREIGN CAPITAL IN LISNAVE. END SUMMARY

1. SCANT HOURS AFTER BEING SWORN IN ON AUGUST 8, NEW COUNCIL OF MINISTERS APPROVED FOLLOWING ECONOMIC MEASURES:

A. NATIONALIZATION OF ENTIRE BREWERY INDUSTRY AND OF THREE COMPANIES IN GIANT COMPANHIA UNIAO FABRIL (CUF) GROUP--INVESTMENT HOLDING COMPANY SOGEFI (SOCIEDADE DE GESTAO E FINANCIAMENTO, SARL); SHIPPING COMPANY SOCIEDADE GERAL DE COMERCIO, INDUSTRIA E TRANSPORTES, SARL; AND SHIPYARD SETANAVE (ESTALEIROS NAVAIS DE SETUBAL, SARL).

B. ISSUANCE OF INTERNAL FIVE BILLION ESCUDOS (ABOUT \$200 MILLION) BOND ISSUE.

C. EXTENSION OF UNEMPLOYMENT, WELFARE AND MEDICAL/HOSPITAL INSURANCE TO ANGOLAN REFUGEES. PROGRAM TO BE ADMINISTERED BY INSTITUTO DE APOIO AO RETORNO DE NACIONAIS (I.A.R.N.).

D. APPROVAL OF STATUTES FOR NATIONALIZED NATIONAL AIRLINE TAP.

E. ESTABLISHMENT OF SPECIAL \$67 MILLION CREDIT FOR LOCAL MUNICIPALITIES, WITH \$40 MILLION EARMARKED FOR IMPLEMENTATION OF NATIONAL EMPLOYMENT PROGRAM.

F. CONCRETE FINANCIAL AND MANPOWER SUPPORT FOR NEWLY-ESTABLISHED JUNTAS FOR AZORES AND MADEIRA.

2. COUNCIL OF MINISTERS COMMUNIQUE DISCLOSED THAT COUNCIL DISCUSSED, BUT APPARENTLY DID NOT TAKE FINAL ACTION ON, AUSTERITY MEASURES SUCH AS SUPPORT FOR DOMESTIC PRODUCTION, REDUCTION OF MAXIMUM NATIONAL SALARY (CURRENTLY \$1,950 PER MONTH) AND WAGE SCALES OF GOVERNMENT OFFICIALS, AND INCREASED SUPPORT TO AGRICULTURE VIA 20-30 PERCENT REDUCTION IN PRICES OF FERTILIZER. COMMUNIQUE ALSO REITERATED NECESSITY OF SWIFTLY CARRYING OUT PLANNED NATIONALIZATIONS AND DEFINING PARAMETERS FOR PRIVATE SECTOR.

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3. COMMENT:

A. NATIONALIZATION OF BREWERIES AFFECTS ANOTHER SECTOR THAT HAD ALREADY BEEN SLATED FOR GOVERNMENT INTERVENTION (LISBON 2190 NOTAL). COMPANIES LIKE SOCIEDADE CENTRAL DE CERVEJAS, WHICH ALSO BOTTLES SCHWEPPE'S SOFT DRINKS, HAVE BEEN HIGHLY PROFITABLE. TAKEOVER OF CUF SHIPPING COMPANY FOLLOWS PREVIOUS NATIONALIZATIONS IN THAT SECTOR, INCLUDING ANOTHER CUF FIRM--COMPANHIA NACIONAL DE NAVEGACAO. SETENAVE IS FIRST

NATIONALIZATION IN SHIP CONSTRUCTION SECTOR, WHICH WAS ALSO ALREADY ON INTERVENTION SCHEDULE.

B. DESPITE CONTINUING CALLS BY CUF WORKERS FOR NATIONALIZATION OF ENTIRE CONGLOMERATE (LISBON 3932 NOTAL), AND PREVIOUS "SEMI-INTERVENTION" THROUGH PLACING GOVERNMENT DELEGATES IN ALL COMPANIES OF GROUP (LISBON 2925 NOTAL), GOP APPARENTLY HAS DECIDED TO ATTACK CUF BIT BY BIT. SOGEFI IS ONE OF PRINCIPAL STOCKHOLDERS IN CUF, ALONG WITH ALREADY NATIONALIZED BANCO TOTTA E ACORES, THE DE MELLO FAMILY, AND AMELIA DA SILVA MELLO FOUNDATION. IT'S UNCLEAR WHY SOCIEDADE GERAL DE COMERCIO, INDUSTRIA E TRANSPORTES WAS NOT NATIONALIZED IN APRIL ALONG WITH THREE OTHER SHIPPING COMPANIES.

C. FAILURE TO NATIONALIZE SETENAVE'S SISTER SHIPYARD, LISNAVE, SEEMS DESIGNED TO AVOID DIRECT AFFRONT TO FOREIGN CAPITAL, WHICH HAS ONLY INDIRECT PARTICIPATION IN SETENAVE. SWEDISH AND DUTCH SHIPYARDS HOLD 40 PERCENT SHARE OF LISNAVE, WHICH IN TURN HOLDS 40 PERCENT OF SETENAVE. SOURCES HAVE TOLD US OF THREATS BY SWEDISH AND DUTCH TO PULL OUT THEIR VITAL TECHNICAL PERSONNEL IF LISNAVE IS NATIONALIZED.

D. MEASURES FOR ANGOLAN REFUGEES WERE ACCOMPANIED BY IMPLICIT DISCLAIMERS OF GOP RESPONSIBILITY FOR THEIR PLIGHT. COMMUNIQUE APPEALED TO UNIONS, "PROGRESSIVE ORGANIZATIONS," AND PORTUGUESE PEOPLE TO ASSIST THEIR ANGOLAN "BROTHERS" AND UNDERSTAND THAT THEY ARE "ALSO VICTIMS OF THE SITUATION INHERITED FROM THE PREVIOUS REGIME."

E. PREVIOUS BOND ISSUE, "TITULOS DO TESOURO" (LISBON A-12 NOTAL), EARLY THIS YEAR WAS APPARENTLY A GREAT SUCCESS--IN LARGE MEASURE BECAUSE OF BIG SALES TO INSTITUTIONAL BUYERS. THE \$200 MILLION ISSUE (RAISED FROM AN INITIAL \$120 MILLION) WAS REPORTEDLY FULLY SUBSCRIBED. A NEW BOND ISSUE WILL BE TEST OF PUBLIC CONFIDENCE IN, AND SUPPORT FOR, GOP.
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